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APR 29 1992

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

Federal Communications Commission
Office of the Secretary

In the Matter of)
)
Tariff Filing Requirements for)
Interstate Common Carriers)

CC Docket No. 92-13

REPLY COMMENTS OF THE INFORMATION
TECHNOLOGY ASSOCIATION OF AMERICA

Ronald J. Palenski
General Counsel
Information Technology
Association of America
Suite 1300
1616 North Fort Myer Drive
Arlington, Virginia 22209-3899
(703) 522-5055

Attorney for the
Information Technology
Association of America

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SUMMARY

The comments in this proceeding convincingly demonstrate the lawfulness of the Commission's regulatory forbearance policy. Contrary to AT&T's claims, the proper application of the "filed rate" doctrine -- as recently reiterated in Maislin Industries v. Primary Steel, Inc. -- is not an impediment to the Commission's regulatory forbearance policy. Nor does Section 203 of the Act stand as an obstacle to the Commission's ability to forbear from regulation.

Given the undeniable benefits of regulatory forbearance, the Commission should not even consider turning back the regulatory clock. Rather, the Commission should address AT&T's concerns by initiating a proceeding to consider extending regulatory forbearance to those of AT&T's services which have been found to be competitive.

The comments in this proceeding identify at least two alternative grounds for relieving competitive carriers of unnecessary Title II regulation, independent of the Commission's authority to forbear from regulation. One alternative, set forth in the comments filed by IBM, would enable the Commission to conclude that service providers which have no market power are not common carriers within the meaning of Title II of the Act. The second alternative is private carriage. The Commission should make clear that

nondominant carriers can routinely offer service on a private carrier basis absent a showing that it would not be in the public interest. Resellers which do not file tariffs should be presumed to be private carriers. The Commission, however, should ensure that private carriage is not misused by facilities-owning carriers as a means of avoiding the unbundling and other salutary requirements of the Computer Rules.

If the Commission were to decide that it lacks the authority to forbear from regulation, the Commission should exercise restraint as it applies the provisions of Title II to nondominant carriers. The Commission should also make clear that, in re-regulating nondominant carriers, it is not abandoning its other procompetitive and deregulatory policies through which enhanced service providers, sharing arrangements and the like have remained free of Title II regulation. The Commission should also take steps to ensure that a decision eliminating regulatory forbearance does not adversely affect the rights of users. Existing contractual arrangements between nondominant carriers and their customers should remain in effect, and the Commission's tariff filing rules should be modified so as to prevent the carriers from unilaterally abrogating these agreements.

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The Information Technology Association of America ("ITAA"), formerly known as ADAPSO, hereby replies to the comments that were filed in response to the Commission's Notice of Proposed Rulemaking in the above-captioned proceeding on March 30, 1992.¹

I. STATEMENT OF POSITION

The comments in this proceeding convincingly demonstrate the lawfulness of the Commission's regulatory forbearance policy. ITAA submits that, rather than abandoning this demonstrably successful policy, the Commission should consider extending regulatory forbearance to the competitive offerings of American Telephone and Telegraph Company ("AT&T"). If the Commission has concerns about its authority to forbear from regulation, the record suggests other means by which the Commission can avoid the

1/ See Tariff Filing Requirements for Interstate Common Carriers, 7 FCC Rcd 804 (1992) [hereinafter "Notice"].

unnecessary regulation of competitive nondominant carriers. If the Commission ultimately concludes that regulatory forbearance is unlawful, it should exercise restraint in reimposing Title II regulation, and should ensure that the rights of users are protected.

II. THE COMMENTS IN THIS PROCEEDING CONVINCINGLY DEMONSTRATE THE LAWFULNESS OF REGULATORY FORBEARANCE.

ITAA finds itself in agreement with the legal position taken by the vast majority of commenting parties, namely, that the Commission's current forbearance policy is a lawful exercise of its authority under the Communications Act. Only a few of the dominant carriers, AT&T chief among them, take an opposing view. Their arguments center on the "filed rate" doctrine and the language of Section 203 of the Act. As shown below, their arguments are not persuasive.

A. Regulatory Forbearance Is Consistent With the "Filed Rate" Doctrine.

Contrary to AT&T's claims, the proper application of the "filed rate" doctrine -- a rule of statutory construction recently reiterated by the Supreme Court in Maislin Industries v. Primary Steel, Inc.² -- is not an impediment to the Commission's regulatory forbearance policy. As MCI Telecommunications Corporation ("MCI") and the Ad Hoc Telecommunications Users Committee ("Ad Hoc

^{2/} 110 S. Ct. 2759 (1990).

Committee") have amply demonstrated, regulatory forbearance is readily reconcilable with the "filed rate" doctrine. All that is required is that carriers not establish both tariffed and non-tariffed rates for the same service.³

As the Ad Hoc Committee points out, Maislin's holding was not directed at any form of regulatory forbearance.⁴ Rather, the policy set aside by the Supreme Court was one which forbade a common carrier from collecting the rate published in its tariff, where the carrier had negotiated a different contract rate for the same service.⁵ In other words, the Court held that an agency cannot require a carrier to charge a rate which differs from its "filed rate" where the same service is involved. There is no conflict between a carrier's tariffed and non-tariffed rates

^{3/} See Comments of MCI Telecommunications Corp. at 19-20 [hereinafter "MCI Comments"] ("It [forbearance] does not permit a nondominant carrier to negotiate a private rate with a customer that is different from the rate reflected in any tariff it files for the same service for similarly-situated customers."). (Unless otherwise indicated, all comments cited herein were filed on or about March 30, 1992.)

^{4/} Comments of Ad Hoc Telecommunications Users Committee at 8-9 [hereinafter "Ad Hoc Comments"] (Maislin court "did not address, even in passing, the lawfulness of a forbearance policy. It held only that, not having forbore from requiring carriers from filing tariffs, the ICC [Interstate Commerce Commission] could not, as a blanket matter, declare that to collect tariff rates instead of contract rates was an unreasonable practice."). See also Comments of Cellular Communications Industry Ass'n at 19-20.

^{5/} See 110 S. Ct. at 2768.

-- and thus no violation of the "filed rate" doctrine -- if the same service is not being offered on both a tariffed and a non-tariffed basis to similarly situated customers.⁶

The Commission should therefore reject AT&T's claim that Maislin and the "filed rate" doctrine are inconsistent with its regulatory forbearance policy. As the record demonstrates, the "filed rate" doctrine and regulatory forbearance are in fact complementary regulatory tools.⁷

6/ See Comments of GTE Service Corp. at 22-23 [hereinafter "GTE Comments"]; Comments of KIN Network Access Division at 6-7 [hereinafter "KIN Comments"]; Comments of First Financial Management Corp. at 7 [hereinafter "First Financial Comments"]; Comments of Sprint Communications Co. L.P. at 7-8 [hereinafter "Sprint Comments"].

7/ Proper application of the "filed rate" doctrine protects users in a regulatory forbearance environment. For example, it would prevent carriers from negotiating a non-tariffed rate and then insisting upon collection of a higher tariffed rate where the negotiations also resulted in changes in the terms and conditions of service. Compare Maislin, 110 S. Ct. at 2769 n.12 ("bait and switch" tactics not permitted) with Marco Supply Co. v. American Telephone and Telegraph Co., 875 F.2d 434 (4th Cir. 1989) (regulated carrier can collect tariffed rate even if carrier's representation of lower applicable rates is fraudulent). To further protect users against carrier misconduct, the Commission should adopt the Ad Hoc Committee's suggestion and prohibit carriers from changing the terms and conditions of negotiated service arrangements by means of unilateral tariff filings. See Ad Hoc Comments at 20-25.

B. Regulatory Forbearance Is Consistent With
Section 203 of the Communications Act.

AT&T also argues that the plain language of Section 203 and the judicial decisions interpreting that language require a determination that regulatory forbearance is unlawful. AT&T is wrong. The Commission may lawfully abstain, within proper limits, from enforcing the procedural requirements of Section 203.

The central issue in this debate is the meaning of the term "modify," as used in Section 203(b)(2). That term was precisely defined by the Second Circuit in its Tariff Notice decision.⁸ There, it was held that "'modify' . . . refers to the ad hoc power of an agency to relax its procedural rules when required by justice."⁹ The tariff filing requirements of Section 203(a) are just such a procedural requirement.¹⁰ As the Commission has repeatedly

8/ American Telephone and Telegraph Co. v. FCC, 503 F.2d 612 (2d Cir. 1974).

9/ Id. at 615 (emphasis added). The Commission could thus lawfully extend a tariff notice period set by the statute. Id. at 616. This decision also held that the Commission's authority under Section 203(b)(2) was not limited to changing tariff notice periods nor the same as the powers conferred upon the Interstate Commerce Commission and the Federal Power Commission by their respective organic statutes. Id. at 617. The Special Permission decision, American Telephone and Telegraph Co. v. FCC, 487 F.2d 864 (2d Cir. 1973), is not inconsistent. That case held merely that the Commission could not create new requirements not found in Section 203. Id. at 879.

10/ MCI Telecommunications Corp. v. FCC, 765 F.2d 1186, 1188 (D.C. Cir. 1985) ("The forbearance approach (Footnote 10 continued on next page)

made clear, regulatory forbearance does not alter the substantive provisions of Title II and nondominant carriers remain fully subject to those requirements.¹¹ The administration of the procedural requirements of Section 203(a) is thus a matter that rests well within the Commission's discretion; it is plainly not a statutory mandate.¹²

Contrary to AT&T's claims, the D.C. Circuit's decision in MCI Telecommunications Corporation v. FCC did not hold that the Commission had violated the Communications Act by allowing nondominant carriers to refrain from filing tariffs.¹³ That case dealt solely with the Sixth Report and Order in the Competitive Carrier proceeding, and overruled the Commission's proscription of tariff filings by

(Footnote 10 continued from previous page)
involved abstaining from applying to non-dominant carriers certain Title II procedural requirements while maintaining the basic substantive requirements that carriers charge 'just and reasonable' rates and not engage in 'unreasonable discrimination.'" (emphasis added)).

11/ See, e.g., Policy and Rules Concerning Rates for Competitive Carrier Services and Facilities Authorizations Therefor, 91 F.C.C.2d 59, 69 (1982) (Second Report and Order).

12/ See GTE Comments at 12; First Financial Comments at 3-5; Comments of Ass'n for Local Telecommunications Services at 3-4 [hereinafter "ALTS Comments"]; Comments of LCI International at 2-3 [hereinafter "LCI Comments"]; Comments of Metropolitan Fiber Systems at 5-7. The debate whether "modify" encompasses "eliminate" misses the point. Tariff filings are not eliminated by the Commission's forbearance policy.

13/ 765 F.2d 1186 (D.C. Cir. 1985).

nondominant carriers. The court's decision expressly did not reach the Commission's policy of "permissive forbearance" adopted in prior Competitive Carrier orders. Moreover, the court noted that permissive forbearance -- involving as it does the allocation of agency resources to enforcement activities -- is arguably immune from judicial review.¹⁴

If the record of this proceeding included evidence that the Commission's "general policy" of forbearance was "so extreme as to amount to an abdication of its statutory responsibilities," the Commission might be required to reconsider this policy.¹⁵ No such evidence, however, has been presented. Indeed, the comments in this proceeding indicate quite the contrary; they overwhelmingly demonstrate that nondominant carrier rates are just, reasonable and nondiscriminatory, and that the public has benefited from lower prices and more attractive services. The "special circumstances" presented by competitive market conditions and the resulting user benefits are more than sufficient to satisfy the requirements of Section 203(b)(2) and justify a continuation of the Commission's regulatory forbearance policy.

¹⁴/ Id. at 1190-91 n.4.

¹⁵/ See id. (quoting Heckler v. Chaney, 470 U.S. 821, 833 n.4 (1985)).

"Special circumstances" certainly justify the continued application of regulatory forbearance to resale common carriers. Because resellers do not own transmission facilities and must acquire the use of such facilities from other carriers, resellers simply do not have the ability to charge unjust or unreasonable rates or to engage in unreasonable discrimination.¹⁶ To require resellers to provide service pursuant to tariff would truly elevate form over substance and is surely not required by Section 203.¹⁷

As the comments in this proceeding should make clear, neither the "filed rate" doctrine nor the language of Section 203 stands as an obstacle to the continued vitality of the Commission's regulatory forbearance policy. As the expert agency charged with supervising the regulatory framework created by the Communications Act, the Commission's consistent interpretation of its statutory responsibilities with respect to tariff filing requirements is entitled to substantial deference.¹⁸ The Commission should

^{16/} Because resellers do not own facilities, they would quickly lose all of their customers if they raised their prices above those of the underlying carrier whose facilities they resell. MCI is therefore wide of the mark when it argues that there is no basis on which the Commission can draw distinctions among nondominant carriers. See MCI Comments at 46. Resellers plainly stand on a different footing than facilities-based carriers.

^{17/} See, e.g., Ad Hoc Comments at 15-18 ("special circumstances" exist to justify exempting resellers from the tariff filing provisions of Title II).

^{18/} See Chevron U.S.A., Inc. v. Natural Resources Defense Council, 467 U.S. 837, 842-45 (1984).

therefore affirm the lawfulness of regulatory forbearance as applied to the increasingly competitive interexchange marketplace.

III. THE COMMISSION SHOULD CONSIDER EXTENDING, RATHER THAN ABANDONING, ITS REGULATORY FORBEARANCE POLICY.

As the parties to this proceeding have amply demonstrated, regulatory forbearance has served the American public remarkably well.¹⁹ Competition has flourished in the provision of most interexchange communications services and numerous new service providers have entered the marketplace.²⁰ Unlike the situation which prevailed a mere decade ago, ITAA's member companies are now able to obtain most interexchange communications services in an environment in which carriers compete on the basis of price, quality and service.²¹ In short, the Commission's Competitive Carrier proceeding has been a regulatory success.²²

^{19/} See, e.g., ALTS Comments at 5-8; Comments of Commonwealth Long Distance Co. at 5-6; Comments of Competitive Telecommunications Ass'n at 5-6; GTE Comments at 6-7; Comments of Interexchange Resellers Ass'n; KIN Comments at 3-7; LCI Comments at n.5 and accompanying text; Comments of OCOM Corp. at 8; Comments of RCI Long Distance, Inc. at 2; Sprint Comments at 16-17; Comments of Telecommunication Marketing Ass'n at 5-6.

^{20/} See Federal Communications Commission - Industry Analysis Division, "Summary of Long Distance Carriers" (released Mar. 17, 1992).

^{21/} Unfortunately, this situation does not yet exist in the market for local exchange services.

^{22/} See Policy and Rules for Competitive Common Carrier Services and Facilities Therefor, 77 F.C.C.2d 308 (Footnote 22 continued on next page)

Given the undeniable benefits of regulatory forbearance, ITAA submits that it simply makes no sense for the Commission to even consider turning back the regulatory clock. ITAA, of course, recognizes that the Commission is not acting in a vacuum. As the Notice itself makes clear,²³ the Commission's reexamination of regulatory forbearance is a response to AT&T's complaint against MCI. The solution, however, is not to abandon regulatory forbearance, as AT&T suggests. That truly would be "throwing out the baby with the bath water." Rather, the Commission should initiate a proceeding to consider extending regulatory forbearance to those of AT&T's services which have been found to be competitive.²⁴

(Footnote 22 continued from previous page)
(1979); First Report and Order, 85 F.C.C.2d 1 (1980); Further Notice of Proposed Rulemaking, 84 F.C.C.2d 445 (1981); Second Report and Order, 91 F.C.C.2d 59 (1982), recon. denied, 93 F.C.C.2d 54 (1983); Second Further Notice of Proposed Rulemaking, 47 Fed. Reg. 17308 (1982); Third Further Notice of Proposed Rulemaking, 48 Fed. Reg. 28292 (1983); Third Report and Order, 48 Fed. Reg. 46791 (1983); Fourth Report and Order, 95 F.C.C.2d 554 (1983); Fourth Further Notice of Proposed Rulemaking, 49 Fed. Reg. 11856 (1984); Fifth Report and Order, 98 F.C.C.2d 1191 (1984); Sixth Report and Order, 99 F.C.C.2d 1020 (1985), reversed and remanded sub nom. MCI Telecommunications Corp. v. FCC, 765 F.2d 1186 (D.C. Cir. 1985).

^{23/} Notice, 7 FCC Rcd at 804.

^{24/} See Competition in the Interstate Interexchange Marketplace, 6 FCC Rcd 5880, 5893 (1991).

IV. THE RECORD OF THIS PROCEEDING IDENTIFIES OTHER MEANS BY WHICH THE COMMISSION CAN AVOID THE UNNECESSARY REGULATION OF COMPETITIVE CARRIERS.

As explained above, the record of this proceeding clearly demonstrates that the Commission possesses the requisite legal authority to forbear from regulating non-dominant carriers. If the Commission has any doubts in this regard, the solution is not to begin re-regulating these carriers. The comments identify at least two other alternative grounds for relieving competitive carriers of unnecessary Title II regulation, independent of the Commission's authority to forbear from regulation.

One alternative is set forth in the comments filed by International Business Machines Corporation ("IBM"). In its comments, IBM has explained why interexchange service providers and resellers that lack market power should not be considered "common carriers" within the meaning of Title II of the Act. Tracing the common law origins of the common carrier concept, IBM's comments -- and the analysis of Professor William K. Jones on which they are based -- demonstrate "that the presence of monopoly power is not only relevant, but should be controlling in determining whether a communications service provider is a common carrier" as that term is used by Title II of the Act.²⁵

²⁵/ Comments of International Business Machines Corp. at 12 [hereinafter "IBM Comments"].

Using this analysis, the Commission could lawfully -- and, as an alternative ground for its decision in this proceeding, should -- conclude that service providers which have no market power are not common carriers within the meaning of the Communications Act.²⁶

A second alternative is private carriage. Perhaps the best discussion of this subject appears in the comments filed by the Ad Hoc Committee.²⁷ As the Ad Hoc Committee and others point out,²⁸ many carriers operate on both a common carrier and private carrier basis. In addition to offering generally available services pursuant to published tariffs, it is the practice of many carriers in today's competitive interexchange marketplace to offer customized services and, in doing so, "to make individualized decisions, in particular cases, whether and on what terms to deal."²⁹ Plainly, when a carrier is acting as a private carrier, offering private carriage services, it is not subject to regulation under Title II of the Act. ITAA

²⁶/ To the extent that these service providers engage in anticompetitive abuse and thereby gain market power, they would become subject to regulation as common carriers, thus ensuring that the public is protected.

²⁷/ See Ad Hoc Comments at 26-31.

²⁸/ See, e.g., *id.*; IBM Comments at 13; First Financial Comments at 12-13; Comments of Fairchild Communications Services Co. at 5.

²⁹/ *National Ass'n of Reg. Util. Comm'rs v. FCC*, 525 F.2d 630, 641 (D.C. Cir.), cert. denied, 425 U.S. 992 (1976).

agrees with the Ad Hoc Committee that the public interest would be served if the Commission were to use the opportunity presented by this proceeding to make clear that nondominant carriers can act as both common carriers and private carriers, and that they can routinely offer service "'on a noncommon carrier basis absent a showing that it would not be in the public interest' for them to do so."³⁰

ITAA also endorses the Ad Hoc Committee's request that the Commission adopt an express presumption that resellers which do not file tariffs are private carriers, absent clear and convincing evidence to the contrary. As the Ad Hoc Committee has correctly pointed out:

Among resellers in particular, common carriers and private carriers are essentially self-selecting by their practices. A reseller who chooses to keep a tariff on file is signalling its intention to be a common carrier for the part of its services covered by the tariff. A reseller who chooses not to file, conversely, must inevitably do its business by private arrangement, and this carries with it almost inevitably individualized decisions on how and when to deal.³¹

ITAA submits that such a presumption will create marketplace certainty and, more importantly, will avoid the needless regulation of those service providers least warranting government oversight.

³⁰/ Ad Hoc Comments at 29 (quoting Martin Marietta Communications Systems, Inc., 60 R.R.2d 779 (¶11) (1986)).

³¹/ Ad Hoc Comments at 16-17 (footnotes omitted).

The Commission, however, should ensure that private carriage is not misused by facilities-owning carriers for their competitive advantage in the enhanced services and customer-premises equipment markets. In particular, the Commission should prohibit the use of private carriage arrangements to avoid the unbundling and other requirements of the Computer Rules that apply to both dominant and nondominant carriers. The Commission can accomplish this goal by conditioning the removal of any previously authorized transmission facilities from common carrier service on the carrier's compliance with the requirements of the Computer Rules.³²

- V. IF REGULATORY FORBEARANCE IS FOUND TO BE UNLAWFUL, THE COMMISSION SHOULD EXERCISE RESTRAINT IN APPLYING TITLE II REGULATION AND SHOULD ENSURE THAT THE RIGHTS OF USERS ARE PROTECTED.

If the Commission were to decide that, notwithstanding the record of this proceeding, it lacks the authority to forbear from regulation, the Commission should exercise restraint as it applies the provisions of Title II to nondominant carriers. In particular, the Commission should ensure that the tariff filing requirements of Section 203 do not impede the ability of nondominant carriers to provide service in a timely and flexible manner.

^{32/} Given the way in which modern communications facilities are used, this may require the removal of a portion of a previously authorized facility.

The Commission should also do its utmost to prevent the filing of tariffs from dampening the vigorous price competition which now characterizes much of the interexchange marketplace. The Commission can do so by minimizing the scope and frequency of tariff filings.

The Commission should also make clear that in re-regulating nondominant common carriers, it is not abandoning its other pro-competitive and deregulatory policies. In particular, the Commission should affirm that the demise of regulatory forbearance will not, by that fact alone, result in the regulation of currently unregulated enhanced service providers, systems integrators, facilities managers, sharing arrangements and private networks.

The Commission should also take steps to ensure that a decision eliminating regulatory forbearance does not adversely affect the rights of users. In this regard, ITAA agrees with MCI that such a decision should have only prospective effect.³³ Existing contractual arrangements between nondominant carriers and their customers should remain in effect and should be allowed to expire according to their terms.³⁴ ITAA similarly agrees that the carriers

³³/ See MCI Comments at 47.

³⁴/ The Commission, however, could prohibit users from exercising any future options to renew or extend the term of such agreements.

should not be required to file tariffs that reflect these existing service arrangements.

To invalidate these agreements would be totally unfair to users who, in good faith, entered into these service arrangements and, in many cases, made substantial investments to take service from the carriers in question. Moreover, to require these agreements to be reflected in newly filed tariffs would risk disclosure of competitively sensitive information about a user's network, its customers, and its operations. In the highly competitive enhanced services business, the release of such information could have disastrous competitive consequences.

The Commission, however, should do more than allow these contracts to remain in effect if users are to be protected. As several parties have correctly pointed out, the carriers have the ability to walk away from these agreements simply by filing inconsistent tariffs. ITAA therefore agrees with the Tele-Communications Association ("TCA") that the Commission should modify its tariff filing rules to prevent the carriers from unilaterally abrogating otherwise binding agreements.³⁵ Specifically, the Commission should require any tariff filing that is inconsistent with an underlying contract and that is filed without the affected customer's consent to be expressly identified as

^{35/} See Comments of Tele-Communications Association at 7-9.

such. These tariff filings should only be made on not less than 120 days' notice, and should be automatically suspended by the Commission for the full statutory period.

Carriers proposing such tariff revisions should also be required to make a detailed and compelling showing why the increased rates or changed terms and conditions are just and reasonable. ITAA agrees with TCA that tariffs which unilaterally abrogate agreements with customers should be found lawful "only in 'rare instances, if any.'"³⁶ And, if such tariff filings are allowed to become effective, users should have the right to terminate their service agreements without liability. These changes in the Commission's rules are absolutely essential if users are to be protected, given the state of the law regarding the precedence of tariffs over contracts. The carriers should not be heard to complain, because these rules would do no more than enforce what would otherwise be binding agreements.³⁷

^{36/} Id. at 9 (quoting Policy and Rules Concerning Rates for Dominant Carriers, 5 FCC Rcd 6786, 6852 n.400 (1990)).

^{37/} The Commission can take the action recommended herein either in this proceeding or in a rulemaking specifically initiated to address the details of a post-regulatory forbearance environment.

VI. CONCLUSION

Upon review of the record of this proceeding, the Commission should conclude that it possesses the requisite statutory authority to forbear from regulation. If the Commission finds that regulatory forbearance is unlawful, it should exercise restraint in reimposing Title II regulation and should ensure that the rights of users are protected.

Respectfully submitted,

INFORMATION TECHNOLOGY
ASSOCIATION OF AMERICA

A handwritten signature in black ink, appearing to read "Ronald J. Palenski". The signature is fluid and cursive, with the first name "Ronald" and last name "Palenski" clearly distinguishable.

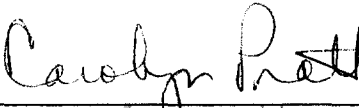
By: Ronald J. Palenski
General Counsel
Information Technology
Association of America
Suite 1300
1616 North Fort Myer Drive
Arlington, Virginia 22209-3899
(703) 522-5055

Its Attorney

April 29, 1992

CERTIFICATE OF SERVICE

I, Carolyn Pratt, hereby certify that copies of the foregoing Reply Comments of the Information Technology Association of America were served by hand or by First-Class United States Mail, postage prepaid, upon the parties appearing on the attached service list this 29th day of April, 1992.



Carolyn Pratt

Cheryl Tritt*
Chief, Common Carrier Bureau
Federal Communications
Commission
1919 M St., N.W., RM 500
Washington, DC 20554

Carl D. Lawson, Deputy Bureau*
Chief (Policy)
Common Carrier Bureau
Federal Communications
Commission
1919 M St., N.W., RM 500
Washington, DC 20554

Colleen Boothby*
Tariff Division
Federal Communications
Commission
1919 M St., N.W., RM 518
Washington, DC 20554

James D. Schlichting, Chief*
Policy & Program Planning
Division
Common Carrier Bureau
1919 M St., N.W., RM 544
Washington, DC 20554

Downtown Copy Center*
1919 M St., N.W., RM 246
Washington, DC 20554

Ms. Donna Searcy*
Secretary
Federal Communications
Commission
1919 M St., N.W.
Washington, DC 20554

Thomas J. Casey
Jay L. Birnbaum
Simone Wu
Timothy R. Robinson
Skadden, Arps, Slate,
Meagher & Flom
1440 New York Avenue, N.W.
Washington, DC 20005

John Cimko, Jr., Chief*
Tariff Division
Federal Communications
Commission
1919 M St., N.W., RM 518
Washington, DC 20554

Ann Stevens, Chief*
Tariff Division
Legal Branch
Federal Communications
Commission
1919 M St., N.W., RM 518
Washington, DC 20554

Gary Phillips*
Policy Division
Federal Communications
Commission
1919 M St., N.W., RM 544
Washington, DC 20554

Andy Lachance*
Policy Division
Federal Communications
Commission
1919 M St., N.W., RM 544
Washington, DC 20554

Spencer L. Perry, Jr.
Executive Director
Interexchange Resellers
Association
P.O. Box 5090
Hoboken, NJ 07030

James S. Blaszak
Patrick J. Whittle
Gardner, Carton & Douglas
1301 K Street, N.W.
Suite 900 East
Washington, DC 20005

Randolph J. May
David A. Gross
Elizabeth C. Buckingham
Sutherland, Asbill & Brennan
1275 Pennsylvania Avenue, N.W.
Washington, DC 20004-2404

Leon M. Kestenbaum
Phyllis A. Whitten
1850 M Street, N.W.
Suite 1110
Washington, DC 20036

Andrew O. Isar
Director of Industry Relation
Telecommunications Marketing
Association
14405 SE 36th Street
Suite 300
Bellevue, WA 98006

Andrew D. Lipman
Ann P. Morton
Swidler & Berlin, Chartered
3000 K Street, N.W.
Washington, DC 20007

J. Roger Wollenberg
William T. Lake
Jonathan Jacob Nadler
Wilmer, Cutler & Pickering
2445 M Street, N.W.
Washington, DC 20037

Timothy B. Hackman
International Business
Machines Corporation
2000 Purchase Street
Purchase, NY 10577

David L. Nace
Marci E. Greenstein
Lukas, McGowan, Nace & Gutierrez
1819 H Street, N.W.
Seventh Floor
Washington, DC 20006

Stuart G. Meister
Vice President and
General Counsel
300 West Service Road
Chantilly, VA 22021-0804

L. Marie Guillory
2626 Pennsylvania Avenue, N.W.
Washington, DC 20037

Josephine S. Trubek, Esq.
Rochester Tel Center
180 South Clinton Avenue
Rochester, NY 14646-0700

Joe D. Edge
Sue W. Bladek
Hopkins & Sutter
888 Sixteenth Street, N.W.
Washington, DC 20006

Martin W. Bercovici
Carol Moors Toth
Keller and Heckman
1001 G Street, N.W.
Washington, DC 20001

Genevieve Morelli
Vice President and General
Counsel
Competitive Telecommunications
Association
1140 Connecticut Avenue, N.W.
Washington, DC 20036

Lawrence E. Sarjeant
James T. Hannon
1020 19th Street, N.W.
Suite 700
Washington, DC 20036

Patrick A. Lee
Edward E. Niehoff
120 Bloomingdale Road
White Plains, NY 10605

James P. Tuthill
Margaret deB. Brown
140 New Montgomery Street
Room 1529
San Francisco, CA 94105

Stanley J. Moore
1275 Pennsylvania Avenue, N.W.
Washington, DC 20004